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SUBJ: EC FINANCE COUNCIL, JUNE 19, 1978

REFS: (A) BRUSSELS 11898 (B) BRUSSELS 11966
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1. SUMMARY: AT THEIR LAST COUNCIL MEETING BEFORE THE
JULY 6-7 EUROPEAN COUNCIL IN BREMEN AND THE WESTERN
ECONOMIC SUMMIT IN BONN, THE EC FINANCE MINISTERS DIS-
CUSSED POSSIBILITIES FOR STRENGTHENED MONETARY COOPERATION
AMONG COMMUNITY MEMBER STATES BUT DID NOT REACH AGREEMENT
ON ANY OF THE MODELS FOR SUCH COOPERATION PROPOSED BY THE
EC MONETARY COMMITTEE. THE MINISTERS ALSO DISCUSSED THE
EC COMMISSION'S PROPOSAL FOR A CONCRETE PACKAGE OF
ADDITIONAL STIMULUS MEASURES BUT MADE NO ATTEMPT TO AGREE
ON A COMMUNITY "CONCERTED ACTION PROGRAM" FOR SUBMISSION
TO THE BREMEN SUMMIT. THE MINISTERS DID AGREE THAT THE
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MONETARY COMMITTEE SHOULD MEET AGAIN THIS MONTH TO PREPARE
A REPORT FOR THE EUROPEAN COUNCIL, SYNTHESIZING MEMBER
STATE VIEWS ON MONETARY COOPERATION IN THE LIGHT OF THE
FINANCE MINISTERS' DISCUSSION, AND TOOK NOTE OF THE
COMMISSION'S INTENTION TO SUBMIT TO THE EUROPEAN COUNCIL
ITS VIEWS ON APPROPRIATE FISCAL STIMULUS REQUIRED BY EACH
MEMBER STATE IF THE COMMUNITY IS TO ACHIEVE GROWTH RE-

QUIRED TO LOWER UNEMPLOYMENT. IN ADVANCE OF THE COUNCIL SESSION, THE MINISTERS ALSO BEGAN THEIR FORMAL CONSULTATIONS WITH THE EUROPEAN PARLIAMENT CONCERNING CREATION OF THE NEW COMMUNITY LOAN INSTRUMENT ("ORTOLI FACILITY").
END SUMMARY.

2. EUROPEAN MONETARY ARRANGEMENTS:

COUNCIL DISCUSSION WAS BASED UPON SEPARATE REPORTS FROM THE MONETARY COMMITTEE (REF A) AND THE BOARD OF EC CENTRAL BANK GOVERNORS (SEE SEPTTEL) CONCERNING POSSIBLE MEANS OF INCREASING MONETARY COHESION AMONG THE MEMBER STATES. ALTHOUGH DEBATE ON THIS ISSUE TOOK PLACE IN RESTRICTED SESSION, AND AVAILABLE INFORMATION ON MEMBER STATE POSITIONS IS ACCORDINGLY LIMITED (WE HAVE NO INFORMATION YET ON THE ITALIAN POSITION, IN PARTICULAR), PRESS BRIEFINGS BY COUNCIL PARTICIPANTS DID HIGHLIGHT IMPORTANT DIFFERENCES OF OPINION AMONG SNAKE AND NON-SNAKE MEMBER STATES CONCERNING THE THREE OPTIONS PRESENTED BY THE MONETARY COMMITTEE: (1) REENTRY OF FLOATING MEMBER STATE CURRENCIES INTO A POSSIBLY MODIFIED SNAKE; (2) AN EUA OR EFFECTIVE RATE-AIMED SYSTEM WITH INTERVENTION OBLIGATIONS; OR (3) A SIMILAR SYSTEM WITHOUT INTERVENTION OBLIGATIONS.

3. UK CHANCELLOR OF THE EXCHEQUER HEALEY TOOK A POSITIVE VIEW OF THE DISCUSSION OF MONETARY ARRANGEMENTS DURING HIS LIMITED OFFICIAL USE

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POST-MEETING PRESS CONFERENCE, EMPHASIZING THAT THE MEETING HAD SEEN A VERY USEFUL EXCHANGE OF VIEWS. HOWEVER, HEALEY TOOK A RESERVED POSITION ON THE FIRST MONETARY OPTION (SNAKE REENTRY). HE NOTED THAT "THE HEATH GOVERNMENT'S DECISION" TO JOIN THE SNAKE WAS FOLLOWED TEN DAYS LATER BY UK WITHDRAWAL FROM THAT ARRANGEMENT AND THAT THE FRENCH HAD UNDERGONE A SIMILAR CHANGE OF MIND ON TWO OCCASIONS OVER THEIR OWN ASSOCIATION WITH THE SNAKE; HE INSISTED THAT THE UK WILL ACCEPT A NEW MONETARY ARRANGEMENT ONLY IF IT IS DURABLE. HEALEY SAID HE TOLD THE COUNCIL THE UK COULD ACCEPT A NEW MONETARY SCHEME ONLY IF IT SATISFIES THE FOLLOWING REQUIREMENTS:

(A) ANY NEW SYSTEM MUST REDUCE CONSTRAINTS ON GROWTH IMPOSED BY EXCESSIVE EXCHANGE RATE FLUCTUATIONS; BUT

(B) SUCH A SYSTEM MUST NOT PREVENT MARKET FORCES FROM CHANGING CURRENCY VALUES TO REFLECT UNDERLYING CONDITIONS OF ECONOMIC PERFORMANCE AND THEREBY CONTRIBUTING TO THE ADJUSTMENT PROCESS. THE AIM MUST BE TO REDUCE DISPARITIES IN PERFORMANCE RATHER THAN PREVENT THEM FROM BEING REFLECTED IN CURRENCY VALUES;

(C) IT MUST IMPOSE "SYMMETRICAL" RIGHTS AND OBLIGA-

TIONS ON SURPLUS AND DEFICIT COUNTRIES AND MUST INCLUDE
A POSITIVE ADJUSTMENT PROCESS;

(D) SUPPORTING CREDIT MECHANISMS MUST BE AVAILABLE ON
APPROPRIATE TERMS, AND THE AMOUNT OF CREDIT AVAILABLE
MUST MATCH THE INCREASED RISK OF SPECULATION INHERENT IN
ANY WIDER CURRENCY ARRANGEMENTS; AND

(E) THERE MUST BE SCOPE FOR TRANSFER OF RESOURCES
FROM STRONGER TO WEAKER AREAS (HEALEY COMMENTED THAT THE
EC'S COMMON AGRICULTURAL POLICY CURRENTLY ACHIEVES THE
OPPOSITE OF THIS, BY TRANSFERRING FUNDS FROM LOW PER
CAPITA INCOME COUNTRIES TO HIGH PER CAPITA INCOME
COUNTRIES).

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4. HEALEY SAID HE THOUGHT IT POSSIBLE TO DEVELOP AN
ARRANGEMENT MEETING THESE REQUIREMENTS, BUT HE WARNED
THAT NO DECISIONS ON A SCHEME FOR MONETARY COOPERATION
ARE LIKELY AT EITHER THE BREMEN OR BONN SUMMITS; HE WOULD
CONSIDER IT REMARKABLE IF THOSE MEETINGS WOULD EVEN PRO-
DUCE AGREEMENTS ON PRINCIPLES FOR SUCH COOPERATION,
ALTHOUGH HE FELT THAT CHANCES WERE CONSIDERABLY BETTER
AFTER THE DISCUSSIONS JUST HELD. HE CHIDED THE PRESS
FOR RECENT REPORTS THAT THE UK IS MAKING ITS SUPPORT FOR
MONETARY COOPERATION CONDITIONAL UPON ACCEPTANCE OF AD-
DITIONAL GROWTH BY OTHER COUNTRIES, NOTING THAT HMG WOULD
NOT ACCEPT A "NON-SUSTAINABLE MONETARY AGREEMENT" JUST
TO GET ACTION ON GROWTH WHICH MIGHT NOT BE ATTAINABLE
OBJECTIVE ANYWAY. HE COMMENTED THAT ONE OF THE OBSTACLES
TO SOLID COMMITMENTS BY THE BREMEN SUMMIT WILL BE UN-
CERTAINTY BY THE GERMANS OVER WHAT THEY MIGHT RECEIVE IN

RETURN FOR CONCESSIONS ON THEIR PART, PARTICULARLY SINCE NEITHER JAPAN NOR THE UNITED STATES WILL BE PRESENT AT THE MEETING. HE FURTHER EMPHASIZED THAT NONE OF THE EC MEMBER STATES WANT EUROPEAN MONETARY COOPERATION TO DAMAGE THE DOLLAR.

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5. HEALEY DID NOT TELL REPORTERS WHICH OF THE THREE MONETARY COMMITTEE OPTIONS THE UK PREFERS, BUT HE DID COMMENT THAT THERE WAS MORE SUPPORT IN THE COUNCIL FOR OPTIONS ONE OR TWO THAN FOR OPTION THREE (WHICH HE CHARACTERIZED AS NOT VERY DIFFERENT FROM THE SITUATION WHICH NOW OBTAINS IN THE MONETARY SECTOR). HE SAID IT WOULD BE "FAIR TO SAY" THAT SOME MEMBERS OF THE PRESENT SNAKE ARE RELUCTANT TO HAVE WIDER COOPERATION WHICH COULD DAMAGE THE EXISTING SYSTEM, WHILE OTHERS ARE CONCERNED THAT THERE SHOULD BE NO DISCRIMINATION BETWEEN EXISTING SNAKE MEMBERS AND FLOATING COUNTRIES, SHOULD THE LATTER JOIN AN EXPANDED ARRANGEMENT. HE ALSO ASSERTED THAT THE FRENCH ARE PARTICULARLY CONCERNED OVER THE POSSIBILITY OF WEAKER CURRENCIES COMING UNDER SPECULATIVE ATTACK UNDER A NEW ARRANGEMENT. HE INSISTED THAT THE IMPORTANT THING, IN THE UK VIEW, IS NOT TO SEEK IMMEDIATE AGREEMENT ON THE MECHANICS OF A NEW ARRANGEMENT BUT RATHER TO SEEK AGREEMENT ON THE PRINCIPLES ON WHICH AN ARRANGEMENT MUST BE BASED. HE NOTED, IN CONCLUSION, THAT THE MONETARY COMMITTEE HAS BEEN ASKED TO TAKE ACCOUNT OF VIEWS EXPRESSED BY THE MEMBER STATES DURING THE COUNCIL MEETING AND TO PREPARE FOR THE BREMEN SUMMIT A DESCRIPTION OF AREAS OF CONSENSUS.

6. AT HIS OWN POST-COUNCIL PRESS BRIEFING, FRG FINANCE MINISTER MATTHOEFER TOOK A MUCH STRONGER VIEW THAN HEALEY ON THE NEED FOR ANY NEW MONETARY ARRANGEMENT TO INCLUDE ALL EC MEMBER STATES, EMPHASIZING THE GERMAN POSITION THAT THE COMMUNITY SHOULD NOT BE DIVIDED INTO DIFFERENT CURRENCY ZONES AND THAT ALL STATES PARTICIPATING IN A NEW ARRANGEMENT SHOULD BE SUBJECT TO THE SAME DISCIPLINE, WITH THE SAME RIGHTS AND OBLIGATIONS. MATTHOEFER DID NOT OUTLINE IN DETAIL HIS PRESENTATION TO THE COUNCIL; BUT HIS PREFERENCE THAT FLOATING COUNTRIES REJOIN AN EXPANDED

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SNAKE, IMPLICIT IN HIS PRESS CONFERENCE REMARKS, ACCURATELY REFLECTED THE GERMAN POSITION EXPRESSED DURING THE SNAKE MEETING HELD IN LUXEMBOURG THE MORNING OF JUNE 19

(SEE SEPTTEL). MATTHOEFER ALSO TOLD REPORTERS ON BACKGROUND THAT THE FRG DOES NOT EXPECT THE BREMEN SUMMIT TO RESULT IN MUCH MORE THAN GUIDELINES ON A POSSIBLE CHOICE AMONG MODELS FOR MONETARY COOPERATION.

7. FRENCH ECONOMICS MINISTER MONORY TOLD REPORTERS THAT THE GOF VIEWS LARGE EXCHANGE RATE FLUCTUATIONS AS A BAR TO ECONOMIC RECOVERY, BUT HE EMPHASIZED THAT FRANCE COULD NOT TAKE ACTION ALONE AND THAT ALL MEMBER STATES MUST PARTICIPATE IN ANY NEW ARRANGEMENT. HE GAVE NO INDICATION, HOWEVER, OF THE KIND OF MECHANISMS FRANCE WOULD PREFER. (HEALEY MADE A POINT OF PRAISING MONORY'S CONTRIBUTIONS TO THE COUNCIL DISCUSSIONS ON MONETARY MATTERS, WHICH MIGHT SUGGEST THAT MONORY HAD BEEN GENERALLY SUPPORTIVE OF BRITISH VIEWS.)

8. EC CONCERTED ACTION:

ACCORDING TO COMMISSION SPOKESMEN, THE COUNCIL DID NOT MAKE A SERIOUS EFFORT TO AGREE ON A COMMUNITY "CONCERTED ACTION PROGRAM" WITH A CONCRETE PACKAGE OF STIMULUS MEASURES FOR MEMBER STATES. HEALEY TOLD REPORTERS THE COMMISSION'S PROPOSAL TO THE COUNCIL (REF B) MAKES TWO POINTS IN PARTICULAR: (1) COMMUNITY GROWTH FOR 1978/79 IS NOT LIKELY TO EXCEED 2.5 TO 3 PERCENT; AND (2) THE COMMISSION FEELS THAT ADDED STIMULUS OF 1.5 TO 2 PERCENT WOULD PRODUCE A DECREASE IN UNEMPLOYMENT, WHILE CURRENT MEMBER STATE ECONOMIC POLICIES WOULD MORE LIKELY LEAD TO AN INCREASE IN UNEMPLOYMENT. HBALEY SAID THAT THIS ANALYSIS WAS ACCEPTED BY ALL MEMBER STATES. HE FURTHER NOTED THAT THE GERMANS ALLOWED THE 1.5 TO 2 PERCENT FIGURE FOR ADDITIONAL STIMULUS TO REMAIN IN THE COMMISSION PAPER BUT THAT THEY DID NOT ACCEPT IT AS A TARGET, BUT INSISTED

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THAT, IN THEIR VIEW, IT CAN ONLY REPRESENT A "STATEMENT OF FACT". HEALEY SAID THAT HE AGREED WITH THIS INTERPRETATION. HE ADDED THAT, WHILE THE COUNCIL DID NOT AGREE ON ADDITIONAL STIMULUS MEASURES, COMMISSION VICE PRESIDENT ORTOLI ANNOUNCED THAT, FOLLOWING CONSULTATIONS HE WILL HOLD JUNE 30 WITH THE EC'S COORDINATING GROUP ON CONCERTED ACTION, HE WILL PREPARE FOR SUBMISSION TO THE BREMEN SUMMIT A COMMISSION PAPER ON APPROPRIATE GROWTH TARGETS FOR EACH MEMBER STATE, WHICH MIGHT SERVE AS THE BASIS FOR DISCUSSION BY THE EC HEADS OF GOVERNMENT.

9. AT A SEPARATE PRESS BRIEFING, MONORY SAID THAT THERE WAS AGREEMENT THAT CONCERTED ACTION WAS NECESSARY, AND SUGGESTED THAT EVEN THE GERMANS HAD GIVEN INDICATIONS THEY WOULD PARTICIPATE. MONORY EMPHASIZED TO REPORTERS THAT, ALTHOUGH FRANCE HAS A SMALLER MARGIN OF MANEUVER WITH RESPECT TO POSSIBLE GROWTH POLICIES THAN DO SOME OTHER COUNTRIES, IT IS STILL MAKING SIGNIFICANT EFFORTS, PARTICULARLY THROUGH ACCEPTANCE OF A LARGE BUDGET DEFICIT. HE INSISTED, HOWEVER, THAT A PRIMARY FRENCH OBJECTIVE REMAINS REDUCTION OF INFLATION, AND ADDED THAT, IF FRENCH INFLATION WERE REDUCED TO 7 PERCENT, DISPARITIES IN EC LIMITED OFFICIAL USE

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MEMBER STATE INFLATION RATES WOULD BE MANAGEABLE.

10. AT THE GERMAN PRESS BRIEFING, MATTHOEFER MAINTAINED THE CAUTIOUS FRG LINE ON THE NEED FOR GREATER GROWTH, ASSERTING THAT, OVER THE PAST THREE YEARS, GERMANY HAS HAD A BETTER GROWTH RATE THAN THE UK, WHILE MAINTAINING A LOWER INFLATION RATE. HE ADDED, HOWEVER, THAT GERMANY IS READY TO PARTICIPATE IN A CONCERTED ACTION PROGRAM IF ALL MEMBER STATES CONTRIBUTE, AND DO EVERYTHING POSSIBLE TO BRING ABOUT BETTER ECONOMIC CONVERGENCE.

11. COMMUNITY LOAN INSTRUMENT:
THE COUNCIL MET WITH A DELEGATION FROM THE EUROPEAN PARLIAMENT TO BEGIN THE FORMAL CONCILIATION PROCEDURE ON THE DECISION TO CREATE A NEW COMMUNITY LENDING FACILITY (REF C). NO AGREEMENT WAS REACHED, WITH POINTS OF DIFFERENCE CENTERING ON SHARING OF RESPONSIBILITIES FOR THE FACILITY AMONG THE COUNCIL, THE COMMISSION, AND THE EUROPEAN INVESTMENT BANK, AS WELL AS ON PARLIAMENTARY CONCERN THAT THE FACILITY NOT BE FINANCED OUTSIDE THE EC BUDGETARY PROCESS. CONSULTATIONS ARE TO RESUME ON JULY 24. MORRIS

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